

LUTHER AREA PUBLIC LIBRARY

LUTHER, MICHIGAN

MARCH 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Luther Area Public Library	County Lake
Audit Date 3/31/04	Opinion Date 9/21/04	Date Accountant Report Submitted to State: 11/30/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Manual for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street		City Cadillac	State MI
		ZIP 49601	
Accountant Signature 		Date	

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

MARCH 31, 2004

TABLE OF CONTENTS

	<u>EXHIBIT</u>	<u>PAGES</u>
Independent Auditors' Report		1
 <u>GENERAL-PURPOSE FINANCIAL STATEMENTS</u>		
Balance Sheet - Governmental Fund Type - General Fund	A	2
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund Type - General Fund	B	3-4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Governmental Fund Type - General Fund	C	5-6
Notes to Financial Statements		7-9
 <u>OTHER INFORMATION</u>		
Letter of Comments and Recommendations		10-11
Letter of Reportable Conditions		12-13

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CERTIFIED PUBLIC ACCOUNTANTS

September 21, 2004

INDEPENDENT AUDITORS' REPORT

Luther Area Public Library
Luther, Michigan

We have audited the accompanying general-purpose financial statements of the Luther Area Public Library, Luther, Michigan, as of and for the year ended March 31, 2004, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Luther Area Public Library management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general-purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The Library has not maintained a record of its general fixed assets. Thus, the amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the omission of the information mentioned in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Luther Area Public Library as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUND TYPE
GENERAL FUND

MARCH 31, 2004

ASSETS

Cash	
Money Market Account	\$ 12,087
Certificates of Deposit	29,439
Accounts Receivable	922
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TOTAL ASSETS	\$ 42,448
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LIABILITIES AND FUND BALANCE

LIABILITIES

Payroll Withholdings Payable	\$ 128
Payroll Taxes Payable	130
	<hr/>
Total Liabilities	\$ 258

FUND BALANCE

Unreserved/Undesignated	42,190
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 42,448
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TYPE
GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2004

REVENUES

State Grants		
Library State Aid	\$	777
Library Penal Fines		
Lake County		14,047
Contributions from Other Units		10,586
Interest and Rents		
Interest Earnings		986
Other Revenues		
Book Sales		79
Donations from Private Sources		2,105
Miscellaneous		2,319
Total Revenues	\$	<u>30,899</u>

EXPENDITURES

Cultural and Recreation		
Personal Services		
Salaries and Wages		
Librarians	\$	9,430
Treasurer		350
Employee Benefits		
Medicare and Social Security		748
Michigan Unemployment		6
Supplies		
Books		699
Office Supplies		962
Other Services and Charges		
Professional Services		1,133
Utilities		2,044
Travel		312
Insurance		1,613
Dues		82
Education and Training		120
Summer Program		150
Repairs and Maintenance		387
Miscellaneous		441

The accompanying notes are an integral part of these financial statements.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TYPE
GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2004

Capital Outlay		
Building and Improvements	40,763	
Equipment	748	
Total Expenditures	<u> </u>	<u>59,988</u>
Excess of Revenues Over (Under) Expenditures	\$	(29,089)
<u>FUND BALANCE</u> - April 1, 2003		<u>71,279</u>
<u>FUND BALANCE</u> - March 31, 2004	\$	<u><u>42,190</u></u>

The accompanying notes are an integral part of these financial statements.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GOVERNMENTAL FUND TYPE
GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2004

	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>			
State Grants			
Library State Aid	\$ 700	\$ 777	\$ 77
Library Penal Fines			
Lake County	10,000	14,047	4,047
Contribution from Other Units	0	10,586	10,586
Interest and Rents			
Interest Earnings	830	986	156
Other Revenues			
Book Sales	200	79	(121)
Donations from Private Sources	200	2,105	1,905
Miscellaneous	100	2,319	2,219
Total Revenues	\$ 12,030	\$ 30,899	\$ 18,869
<u>EXPENDITURES</u>			
Cultural and Recreation			
Personal Services			
Salaries and Wages			
Librarians	\$ 9,650	\$ 9,430	\$ 220
Treasurer	350	350	0
Employee Benefits			
Medicare and Social Security	1,000	748	252
Michigan Unemployment	9	6	3
Supplies			
Books	2,000	699	1,301
Office Supplies	700	962	(262)
Other Services and Charges			
Professional Services	700	1,133	(433)
Utilities	3,000	2,044	956
Travel	400	312	88
Insurance	1,000	1,613	(613)
Dues	82	82	0
Education and Training	500	120	380
Summer Program	100	150	(50)
Repairs and Maintenance	0	387	(387)
Miscellaneous	200	441	(241)

The accompanying notes are an integral part of these financial statements.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GOVERNMENTAL FUND TYPE
GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2004

	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
Capital Outlay			
Building and Improvements	40,000	40,763	(763)
Equipment	500	748	(248)
Total Expenditures	\$ 60,191	\$ 59,988	\$ 203
Excess of Revenues Over (Under) Expenditures \$	(48,161)	\$ (29,089)	\$ 19,072
<u>FUND BALANCE</u> - April 1, 2003	0	71,279	71,279
<u>FUND BALANCE</u> - March 31, 2004	\$ (48,161)	\$ 42,190	\$ 90,351

The accompanying notes are an integral part of these financial statements.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Luther Area Public Library provides library services to the residents of the Luther, Michigan area from its facility located in Luther, Michigan. The Library is a legally established district library pursuant to Section 6 of Act 24 of the Public Acts of 1989. The participating municipalities include Dover Township, Ellsworth Township, Newkirk Township, and the Village of Luther. The District Library Board is made up of six appointed board members. Under the criteria established by generally accepted accounting principles, the Library has determined that there are no component units which should be included in its reporting entity.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Library has no long-term debts which would be recorded in the general long-term debt account group.

The Library has the following fund type and account group:

Governmental funds are used to account for the Library's general governmental activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Library considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

Governmental funds include the following fund type:

The general fund is the Library's primary operating fund. It accounts for all financial resources of the library.

Account Group. The general fixed assets account group is used to account for fixed assets not accounted for in proprietary or trust funds. The Library has not established a record of its general fixed assets.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

C. Assets, Liabilities and Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from date of acquisition.

The Investment Policy adopted by the Library Board allows the treasurer to invest in commercial accounts and certificates of deposit.

2. Fixed Assets

Fixed assets used in governmental fund types (general fixed assets) should be accounted for in the General Fixed Assets Account Group at cost or estimated historical cost if purchased or constructed. Donated fixed assets should be recorded at their estimated fair value at the date of donation.

3. Use of Estimates

This presentation of financial statements in conformity with generally accepted accounting principles requires the Library to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Treasurer of the Library annually prepares an operating budget taking into consideration the recommendations of the board. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

3. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board from time to time throughout the year.
4. Budget appropriations lapse at the end of the fiscal year.
5. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

At year end, the carrying amount of the Library's deposits was \$41,526 and the bank balance was \$41,679. All of which was covered by federal depository insurance. All deposits are in the Luther branch of the Lake-Osceola State Bank.

B. Building Lease

The Library shares a building with the Luther Area Senior Citizens. The Senior Citizens lease the entire building from the Village of Luther for \$1.00 per year. The Library occupies a portion of the building and is responsible for 1/4 of the shared building costs which include insurance, and utilities other than telephone. The Library reimburses the Senior Citizens monthly for its share of expenses.

C. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and employee injury. The Library carries commercial insurance to cover loss from these various risks.

There have been no significant reductions in insurance coverage from coverage in prior years and settlements have not exceeded insurance coverage in any of the past three fiscal years.

D. Subsequent Event

In December 2003, the Library purchased a building and began making improvements to the building. After the end of the Library's fiscal year, the improvements were completed and the Library relocated to the new building. At that time, the lease agreement described in Note III.B was discontinued.

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CERTIFIED PUBLIC ACCOUNTANTS

September 21, 2004

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Library Board
Luther Area Public Library
Luther, Michigan

As a result of our audit of the financial statements of the Luther Area Public Library for the year ended March 31, 2004, we would like to take this opportunity to comment on the following items relative to the management and accounting procedures of the Library:

GASB 34

The Government Accounting Standards Board has issued a new pronouncement that will dramatically change the way governmental entities report their financial information. For Luther Area Public Library, GASB 34 will become effective for the year ending March 31, 2005.

Some of the changes required by GASB 34 are as follows:

- a) Management's discussion and analysis will be the first thing in a financial report. This will be the administration's narrative overview of the information contained in the financial statements.
- b) The budgetary comparison information must report the original adopted budget and the final amended budget.
- c) Capital assets and long-term liabilities will be required to be reported in the balance sheet. The depreciation on the capital assets will then be reported as an expense in the statement of revenues and expenses. With this change, the financial statements of a government entity will look similar to a for-profit business financial statements.

We are available to advise you and offer assistance on how to proceed with steps needed to meet GASB 34 requirements.

Budgeting

Relative to Act 621 of the Public Acts of 1978 the Uniform Accounting and Budgeting Act, the following items were noted:

- 1) The budget prepared for the 2003-2004 fiscal year did not include beginning and ending fund balances. We would like to note, however, that the 2004-2005 adopted budget did include all necessary information.
- 2) Several items in the budget exceeded the budgeted amounts. In the future, the budget should be amended prior to incurring expenses in excess of budgeted amounts. The amendments should be approved by the Board and recorded in the official minutes.

Credit Card Policy

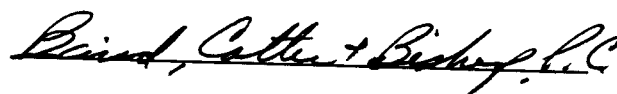
In October 2003, the Library Board approved the use of credit cards for Library purchases. Public Act 266 of 1995 requires local units to adopt a credit card policy. We recommend the Library develop and adopt a credit card policy.

We would like to thank the Board for awarding our firm the audit assignment and thank the Treasurer for her cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your accounting and recordkeeping, please feel free to call on us.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.



Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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September 21, 2004

LETTER OF REPORTABLE CONDITIONS

To the Library Board
Luther Area Public Library
Luther, Michigan

In planning and performing our audit of the general-purpose financial statements of the Luther Area Public Library, Luther, Michigan for the year ended March 31, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect that organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements.

The relatively small number of people involved in the accounting functions of the library make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter + Bishop, P.C.